

Ensure Seamless Leadership Transitions

Eight Insights for Executives and Boards

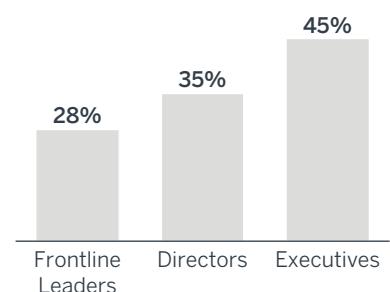
EXECUTIVE RESEARCH BRIEFING

An aging leadership bench creates new urgency for succession planning.

At many health care organizations, almost half of senior leaders are approaching retirement age within the next 10 years. Without a disciplined succession planning process, health systems face two critical risks:

- 1 Not meeting strategic priorities because positions are vacant
- 2 Selecting future leaders who look or think much like your current leadership team—and who aren't necessarily the leaders needed for future success

Percentage of Health Care Leaders Over 55 Years Old, 2015



The basic steps of succession planning appear straightforward: identify the positions that need succession plans, identify high-potential talent that can fill those roles, and prepare these leaders to take on next-level positions. However, organizations with experience in succession planning have found the process is far from easy. There are thorny questions to answer, including:

Which positions truly need a succession plan?

How can you objectively identify the leaders who have what it takes to succeed at the next level?

How do you avoid ending up with a senior leadership bench that looks and thinks exactly like today's—so isn't ready for tomorrow's challenges?

This research briefing addresses these questions and more by sharing eight insights for executives and boards charged with ensuring their organization has the right leadership bench for the future.

Eight insights for seamless leadership transitions

- 01 Retirement risk alone won't tell you which leadership positions need succession plans.
- 02 You can't identify high-potential leaders by looking solely at their performance evaluation ratings.
- 03 Invest in every leader's development—but not in the same way. Concentrate your most significant investment in 10% of leaders.
- 04 Be wary of “secret lists” of successors.
- 05 Senior leaders have a rational incentive to hoard talent—and you may be reinforcing it.
- 06 Your best leaders may find it easier to advance their career with a competitor than with your organization.
- 07 A commitment to diversity isn't enough to change the composition of your leadership ranks.
- 08 What comes first—diverse leaders or diverse staff? You need to pursue both.

Retirement risk alone won't tell you which leadership positions need succession plans.

If a key senior leader has stated they intend to retire in two years, it's clear you need to prepare a successor for that position. But succession management isn't just about planning for retirements. You also need to prepare for unexpected vacancies in key positions. It's hard to know exactly which positions you need to prioritize.

As a result, organizations commonly fall into one of two traps. Some organizations focus exclusively on C-suite positions and overlook more junior, but mission-critical, roles. Other organizations focus on far too many positions at once and spread their resources too thinly.

To identify the right set of positions for succession planning, consider two factors. First, consider the likelihood that a position will become vacant. It could be vulnerable to vacancy if the incumbent(s) plans to retire soon. But it could also be vulnerable if there are known flight risks among incumbents, such as a leader who has expressed frustration with future growth opportunities.

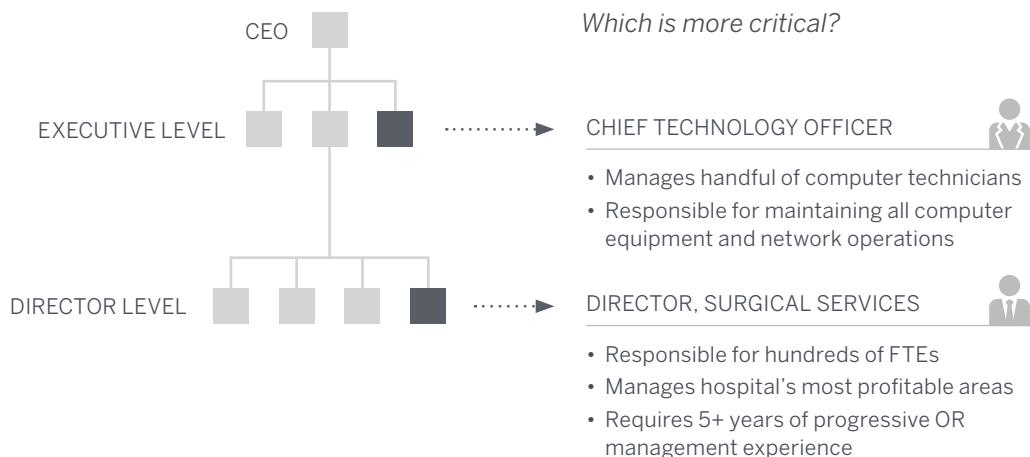
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We ask: If this person won the lottery tomorrow and left, would we have the bench strength that we need beneath them?”

Chief Human Resources Officer
Health system in the Southeast

Second, consider how critical the role is to your organization's future success. In other words: Would a vacancy in this position for more than a month have a significant impact on the organization's strategic or operational imperatives? Considering how critical each leadership position is will help you identify positions beyond the C-suite that may warrant a succession plan.

Sample Comparison of Leader Position Criticality



Criteria to Determine Leadership Positions That Need Succession Plans

POSITION VULNERABILITY

How likely is this position to become vacant, and how soon?

Retirement Risk: Incumbent is nearing retirement age and/or has expressed retirement plans

Engagement Level: Incumbent is disengaged or dissatisfied with their work

Opportunity: Incumbent's internal career opportunities are poorer than external opportunities

Instability: Incumbent is experiencing heightened degree of change, either at home or work

POSITION CRITICALITY

How critical is this position to the organization's success?

Revenue Generation: Position contributes directly to revenue generation; disproportionately responsible for institution's financial health

Level of Responsibility: Position has disproportionately significant responsibilities managing key operations

Network Importance: Position serves as a critical linchpin, connecting multiple elements of the organizational chart

Strategic Importance: Position is directly responsible for an area of growth or a goal in the strategic plan

Degree of Difficulty to Fill: Position requires rare, highly specialized, or in-demand skills

You can't identify **high-potential** leaders by looking solely at their performance evaluation ratings.

To identify succession candidates, you first need to select the subset of leaders who are high performing and have high potential for future leadership roles. In theory, the performance evaluation process should provide helpful data to identify your organization's top leaders.

But there are two problems with relying on performance evaluations. First, they aren't always accurate: a substantial number of leaders receive the top performance rating when they aren't truly top performers. Secondly, standard performance evaluations typically focus only on past performance. But high performing and high potential are not one and the same. Without a clear definition of potential, senior leaders often identify successors with a respected academic background or those who look or behave like them.

Leader Misperceptions When Selecting High-Potential (Hi-Po) Talent

Common Pitfalls	"MINI-ME"	"OLD FAITHFUL"	"IVY LEAGUE"
	 Younger version of current leaders; similar qualities and experiences	 Long-time employee; loyal to leaders; has deep institutional knowledge	 Highly intelligent; may hold several degrees; performs well in academia

To ensure you're identifying the right leaders, you need clear, objective criteria for performance and potential that can be applied consistently across your health system. Texas Health Resources uses a performance evaluation with objective criteria and a standardized self-assessment to ensure they are selecting the right leaders to invest in.

CASE IN BRIEF

Texas Health Resources



3,800-bed health system with 25 acute-care and short-stay hospitals across Northern Texas



All leaders placed on a nine-box grid based on their performance and direct supervisor's assessment of their leadership potential



Leaders slotted into the top boxes on the nine-box grid complete a standardized self-assessment to evaluate their leadership potential; this assessment ensures there is a standard and objective

way to measure potential (and confirm the supervisor accurately identified the leader as high-potential)

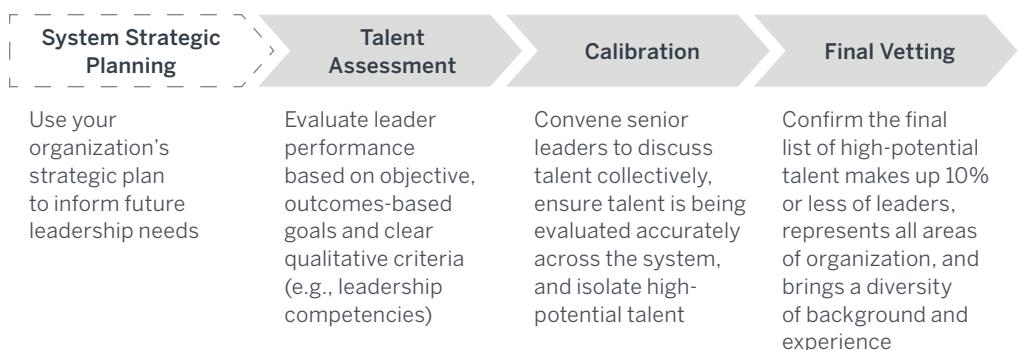


Once all top-rated leaders complete the self-assessment of potential, HR reviews the data and selects those leaders with the highest scores to receive mentors and special assignments through their project management office



30 leaders are presented with customized project work based upon their potential

Clear criteria for performance and potential—along with a well-defined process for applying these criteria—will help you identify the right leaders for succession planning investment and make it easier to defend your final decisions. Follow the process outlined here to identify high-potential leaders.



All of our leaders are high-performing. High-potential? Absolutely not."

Director of Talent Management
Large health system in the Northeast

Invest in every leader's development—but not in the same way. Concentrate your most significant investment in **10% of leaders.**

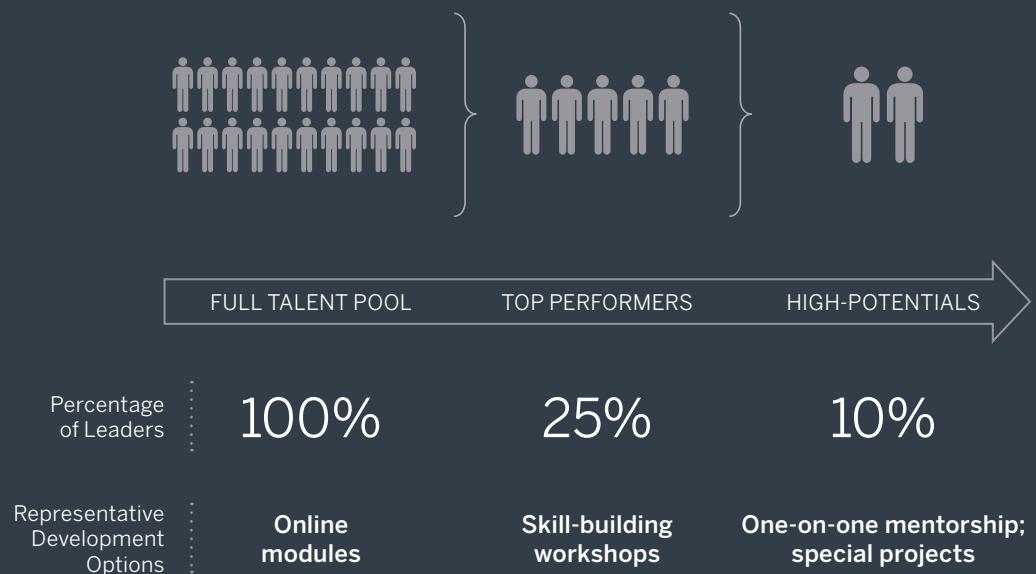
Once you've identified your organization's high-potential leaders, you want to consider how you'll prepare them to eventually step into their next roles. These individuals need a mix of development opportunities to continue building their all-around leadership competencies, as well as gain skills specific to their next position.

This development requires significant investment, which is why it's so important to identify the small number of critical positions that need successors and the small number of leaders you'll prepare to fill those positions. If the pool of successors becomes too large, you risk spreading your development resources too thinly.

However, focusing on 10% of leaders doesn't mean ignoring the development needs of the remaining 90%. To the contrary, all leaders need development—but not all leaders should receive the same level of investment.

High-potential leaders (10% or less of all leaders) should receive intensive support such as executive mentoring and special assignments to prepare them for next-level roles. Top performers (25% of leaders) should receive skill development such as in-person workshops to help them excel in their current roles. All leaders (100%) should have access to skill development—but through scalable means such as online modules.

Recommended Stratification of Leader Development



Be wary of “secret lists” of successors.

One of the most difficult questions to answer in succession planning is who should know which leaders have been identified as successors. Should it be the CEO alone? The full executive leadership team? The successors themselves? This is problematic for many reasons. For example, an individual position may—and ideally, should—have multiple candidates. In addition, there are likely high-performing leaders who weren’t identified as successors but believe they should have been.

You have to strike a delicate balance between keeping identified successors engaged in their future at your organization, and simultaneously engaging the vast majority of leaders who are not designated as successors.

Your decision about how transparent to be depends on your organization’s culture. At some organizations, only the CEO, top executives, and the incumbent are aware of the succession candidates for a role. Other organizations tell the successor they are being groomed for a position and disclose who the other potential successors are as well.

We recommend telling successors that they’re being groomed: it’s engaging for them to know they are regarded so highly by the organization and have a path for growth. And if you don’t tell them, they may start looking elsewhere for opportunities. The key is setting appropriate expectations with successors. They need to know there are no guaranteed promotions, but that the organization values them highly and is investing in them.

Senior leaders at UPMC exhibit this level of transparency particularly when they select high-potentials for their Leadership Development Intensive (LDI) program. These leaders often go on to become successors for key roles, especially at the vice-president and executive levels. From the annual talent-review outcomes, UPMC identifies and invites top-performing, high-potential leaders, primarily at the director level, to submit an application for the LDI cohort held every two years. Applicants are evaluated based on a scored application, executive-readiness assessment, talent-review data, and applicable qualitative feedback from HR. Those with the strongest overall profiles are offered a slot in the cohort. For those who don't make the cut, the applicant, his/her leader, and HR are provided with feedback and guidance on how the individual can improve for the next application period.

CASE IN BRIEF

UPMC



20-hospital integrated finance and delivery system based in Pittsburgh, Pennsylvania



Facilitates a robust, internal talent review of leaders that evaluates both current performance and future potential for career growth



Partners with a third party to administer scored applications and executive-readiness self-assessments of their top-performing, high-potential leaders, primarily at the director level



Identified leaders are invited to apply to the Leadership Development Intensive, an accelerated program targeting director-level and above



The selection process considers outcomes from the scored application, executive-readiness self-assessment, and talent-review data. Leaders who are not selected are provided actionable feedback to improve in opportunity areas

UPMC's approach to selecting top-performing, high-potential leaders for accelerated development is fully transparent and puts leaders in charge of their own careers. Regardless of how transparent you choose to be about the succession planning process, you should assume that leaders who aren't identified as succession candidates will eventually learn this—and may ask why they weren't selected. This is why it's critical to have a principled approach to selecting high-potential talent that you can explain and defend.

“The greatest sign of a strong leader is one that keeps producing top talent—and lets them go where they need to be.”

CHRO, large health system in the Northeast

Senior leaders have a rational incentive to **hoard talent**—and you may be reinforcing it.

Many senior leaders push back when asked to free up their top performers for career paths in growing parts of the organization. While their “hoarding” of talent might be frustrating, it’s rational. From senior leaders’ perspective, you’re trying to take away someone who they’ve already invested significant time and resources in and who makes their job easier.

While it’s painful for individual business units to “give up” their high-potential leaders, your health system will pay a significant cost over time if a culture of talent hoarding persists, as shown here.

Three Costs to Limited Mobility

EXTERNAL SEARCHES FOR REPLACEMENTS	INEQUITABLE DISTRIBUTION OF HI-PO TALENT	DIFFICULTY RETAINING HI-PO STAFF
External search firms are expensive; internal candidates are able to transition to new roles more quickly and without having to learn organizational culture	If high-potential staff are kept in the same function, area, or facility, this could lead to “stockpiles” of top talent in certain locations, with a dearth in others	When hi-po leaders feel stuck in their position, they will start to look externally for the opportunities they want

To overcome leaders’ rational urge to hoard talent, you need to make sure the organization isn’t inadvertently contributing to a culture of talent hoarding. For example, if a supervisor “gives up” a top performer but doesn’t receive a replacement for that person for weeks or months, it’s irrational for them to encourage top talent on their team to explore other opportunities.

To build a culture of talent sharing, organizations should identify a “talent mobility champion” who has an organization-wide purview and can help match your best talent to the appropriate roles. This champion could be a senior HR leader or the CEO. They can help implement programs to promote lateral movement, such as the rotational program described in the next section. They can also create incentives for sharing talent—or at least, mitigate the disincentives that may exist. For example, they could guarantee that leaders who “give up” a high-potential direct report will immediately receive a high-caliber replacement to lessen the impact of the loss on their team.

“I feel like the hiring process is more political than [focused on] skill sets. When I joined the organization, I believed there would be promotion opportunities.”

Open-ended feedback from leaders' engagement surveys

“I am capable of more and receive excellent reviews, but there do not seem to be promotion opportunities within my department. It's disappointing.”

Open-ended feedback from leaders' engagement surveys

Your best leaders may find it easier to **advance their careers** with a competitor than with your organization.

Your high-potential leaders may have a narrow view of the career opportunities available within your organization—and that view can make opportunities at your competitors look appealing. High-potential leaders' perspectives might be narrow for two reasons. First, they may not have the information they need to explore opportunities beyond their own department. Second, they likely feel loyal to the department and senior leaders they work with. If their supervisor has never broached the topic of opportunities outside the department, high-potential leaders may think that going elsewhere in the health system is not worth the political blowback.

These leaders may feel it's easier to advance their career by seizing an opportunity with a competitor. To avoid this scenario, you need to offer high-potential leaders formal opportunities to grow and advance. One way to do this is through a formal rotational program.

Virginia Mason offers a formal rotation to its highest-potential leaders. Two leaders are chosen for the program each year, and their former role is backfilled. At the end of their rotation, the leaders apply for new roles in the health system, typically more senior than the roles they held previously.

CASE IN BRIEF

Virginia Mason



Nonprofit integrated health care system based in Seattle, Washington, that includes a multispecialty group practice, an acute care hospital, and a network of regional clinics; the organization is nationally recognized for its leadership in lean management, the Virginia Mason Production System



In addition to a robust leadership development menu, Virginia Mason offers a Kaizen office rotation for 18 to 24 months; selected leaders take on process improvement initiatives outside of their previous area of work



While leaders are in the rotational program, their previous position is backfilled



After the program concludes, these leaders apply to a new role in the organization



In the past five years, Virginia Mason has only brought in one external leadership hire at the executive level

The advantage of this approach—fully transitioning leaders into a new and unfamiliar job assignment to refine their skills—is that you can accelerate development for these leaders since they will be wholly focused on their new role. But you can only make an investment of this size in a few leaders at a time because you need to backfill their roles and find meaningful full-time assignments for them that will be challenging but doable.

However, you do not have to go as far as removing leaders from their current job to give them the exposure they need. Consider stretch assignments that you can give high-potential leaders to broaden their view beyond their own role. These assignments should ideally be outside their own department or with leaders they don't already work with. Assignments could include cross-functional working groups, initiatives underway through your project management office, or individual projects assisting your executive team.

Keep in mind that stretch assignments such as these can be useful development opportunities for high-potential leaders—but can also inadvertently contribute to burnout. If a high-potential leader feels they're simply doing more work for the same pay and title, they may become disengaged and ultimately leave.

If you provide stretch assignments to a high-potential leader, work with their supervisor to see if their current workload can be adjusted to accommodate the project. And ensure leaders are recognized for the extra work they're taking on—for example, by giving them increased access to senior leaders or a bonus payment.

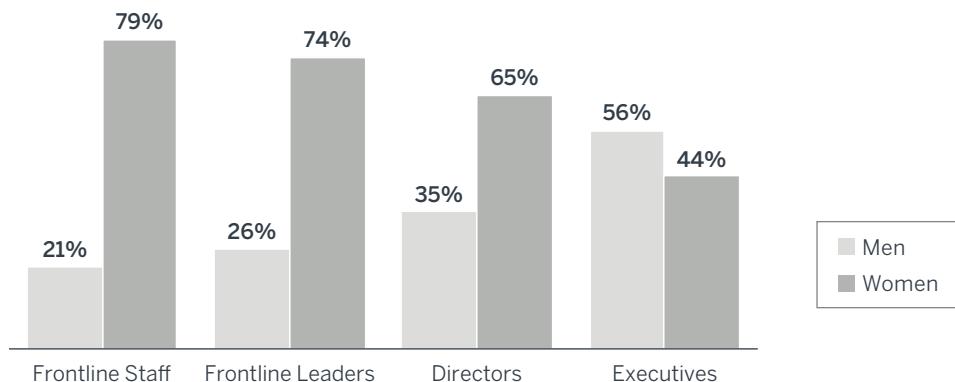
A commitment to diversity isn't enough to change the composition of your leadership ranks.

Virtually all organizations agree leadership diversity is important and, increasingly, a business imperative: a workforce that is representative of its customers is better able to meet their needs.

But this commitment to diversity hasn't changed the typical health care workforce. Data on the representation of women and people of color in senior leadership reveals there is still significant room for improvement.

Gender Breakdown by Job Level in Health Care

2015



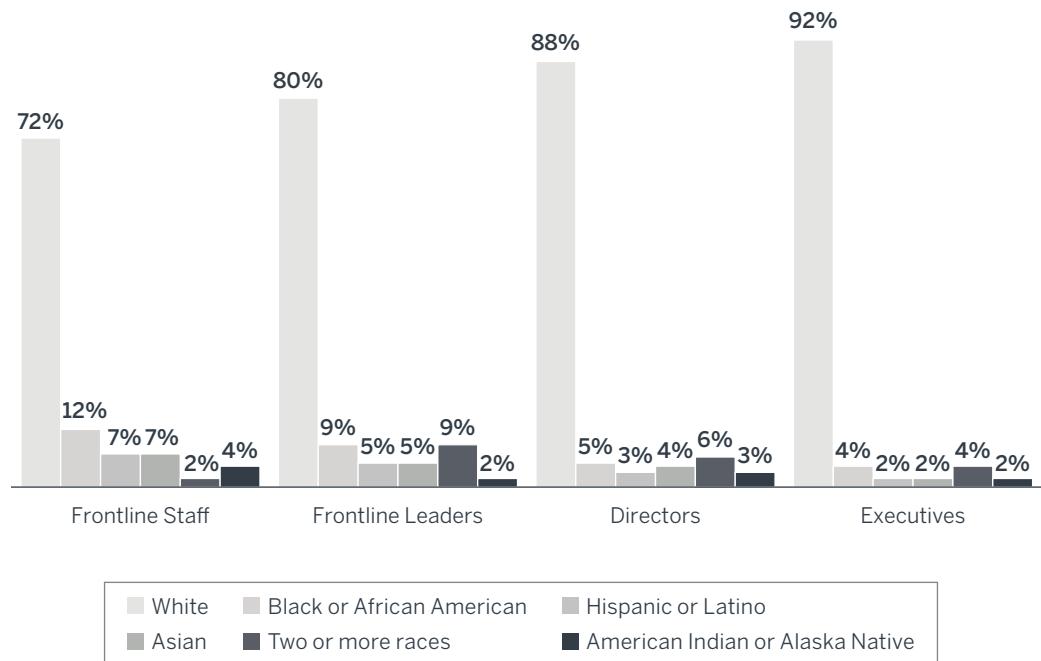
Research confirms that organizations have to do more than just agree that diversity matters; they need to take action to make it a reality. A recent study found that organizations with diversity statements on their websites don't actually have reduced rates of discrimination; they still unknowingly favor white candidates over candidates of color.

“We shouldn’t hire in my exact image, because it’s silly to duplicate my strengths and suicide to duplicate my weaknesses. You need to ensure your future leaders and successors are ones that aren’t the exact same as your current leaders so they can continue to improve your organization and push it further.”

Talent Management Director
Nonprofit health system in the Northwest

Racial Breakdown by Job Level in Health Care

2015



Despite a commitment to bringing more diverse perspectives and backgrounds into leadership roles in health care, senior leaders still hesitate to take decisive steps to change representation at the top. For some leaders, taking steps to diversify leadership feels similar to affirmative action, which can carry a stigma. Some leaders react negatively to quotas or are afraid of “lowering the bar.” Additionally, some leaders feel that if the organization values diversity, representation will naturally change over time.

These leaders are reluctant to acknowledge that even among people with the best intentions, unconscious bias still exists.

The result: organizations talk about the value of diversity but don’t make changes to hiring or selection policies to change representation.

What comes first—diverse leaders or diverse staff? You need to **pursue both**.

For institutions that lack diverse representation across their organization, deciding where to start can be a daunting task. Do you need diversity at the most senior levels to attract more diverse talent? Or do you need diverse frontline staff who can eventually rise through the ranks? The reality is: you need both.

To increase diversity among both leaders and frontline staff, you can take a top-down or a bottom-up approach. From the top-down, you can set specific diversity goals and make sure diversity efforts have a clear reporting line to the CEO. From the bottom-up, you can tackle some of the unique barriers that underrepresented groups face in advancing their careers.

Formalize Accountability at the Executive Level

TOP-DOWN	Goals	Reporting Relationship
	 Give senior leaders formal goals for increasing diverse representation	 Have diversity leader report directly to the CEO to reinforce strategic importance

Address Unique Barriers of Underrepresented Leaders

BOTTOM-UP	Mentorship or Sponsorship	Peer Cohorts
	 Provide a mechanism for diverse staff to form meaningful professional relationships with senior leaders that can help guide their career progression	 Support diverse staff by providing formal opportunities to connect with and relate to peer colleagues

Organizations can either build a leadership program dedicated to an underrepresented group, such as a program for women leaders, or they can offer a program for all leaders that encompasses the diversity of their organization. Baptist Health South Florida chose the latter option. Baptist's program gives individual leaders an equal opportunity to make the connections they need to advance their career, rather than just assuming these connections will happen naturally. The program places participants in a cohort of other high-potential leaders and assigns an executive sponsor to guide each group's project.

CASE IN BRIEF

Baptist Health South Florida



Seven-hospital health system in South Florida with 2,200 physicians; ranked as one of the 100 best places to work by *Fortune* for 16 years



Chief Diversity Officer is two steps away from the CEO in reporting relationship



Offers a system-wide, multi-month leadership development program—Baptist Health Leadership Experience—for high-potential directors and Assistant Vice Presidents; since its inception four years ago, the program has focused on ensuring that the cohorts represent the diversity of the organization



Participants work in cohorts of seven people from across the system on a project that is sponsored by a senior executive; these cohorts then present their final projects to the sponsoring executive, facility CEOs, and Board of Directors



Of the 40 promotions resulting from this program, 10 (25%) have been to black leaders, 16 (40%) to Hispanic leaders, and 14 (35%) to white leaders



Overall, Baptist Health's Leadership at the manager level and above is 10% black, 43% Hispanic, and 42% white

We recommend choosing at least one practice from the top-down approach and one practice from the bottom-up approach to kick-start your diversity efforts. The key is to put weight behind your diversity initiatives from the top-down so senior leaders are consistently reminded of what the organization is working toward and what their role is in increasing diversity. In addition, you have to look for ways to formalize networking and development from the bottom-up for underrepresented staff so they can make the connections they need to advance.



The key to success is that the Diversity Department is a 'stealth department.' Our goal is to weave diversity into the fabric of the organization."

Chief Diversity Officer
Baptist Health South Florida

Available Resources

In addition to this briefing, Advisory Board offers many other resources to support organizations that are grooming top talent for tomorrow's critical leadership roles.

Succession Management Implementation Guide

This toolkit includes 12 ready-to-use tools to help you build effective succession plans for the most critical roles at your organization. These tools can help you identify the positions that need succession plans, choose the right high-potential leaders to prepare for those roles, customize development for these successors, and onboard internal hires.

Access the toolkit at advisory.com/hrac

Advisory Board Fellowship

Advisory Board Fellowship is a rigorous 18-month program that prepares high-potential leaders to step into executive-level roles. The Fellowship offers an executive-oriented curriculum steeped in leadership, business, and health care management. Fellows complete a practicum project at their institutions that prepares them not only to advance in their careers, but also to advance one of their organization's strategic priorities.

For more information visit
advisory.com/talent-development/advisory-board-fellowship

About the HR Advancement Center

A membership of over 1,200 health care institutions, the **HR Advancement Center** equips HR executives and their teams with frontier practices and tools for addressing the most pressing challenges and promising opportunities facing the health care workforce.

The Right HR Strategy for Health Care

We tap into an unparalleled network of leaders—within and beyond the health care industry—to pinpoint root causes of challenges defined by our members and distill executive-level guidance and best practices. Receive our insights and recommendations through a variety of channels including national meetings, webconferences, research reports, and on-demand phone consultation with our experts.

Tactical Support for You and Your Team

We believe it's not enough to simply share best practices—we also need to help you implement them. Access our ready-to-use tools to equip your HR team and operational leaders across the organization to perform more efficiently and effectively.

The Numbers You Need

We help you identify areas of strength and critical performance gaps for metrics such as staff turnover, vacancy, and span of control. Use our interactive benchmark generator to filter our national, health care-specific benchmarks to create custom cohorts for comparison.

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